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Flaherty May Borrow C$85 Billion for Next Budget: Canada Credit

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By Chris Fournier and Greg Quinn

March 4 (Bloomberg) -- Canadian Finance Minister Jim Flaherty will probably pare the government's borrowing needs from a record high when the budget is presented today as policy makers wind down emergency stimulus and economic growth resumes.

Flaherty will outline a borrowing plan that ranges from C$75 billion ($72.7 billion) to C$85 billion for the fiscal year starting April 1, according to three of Canada's five biggest banks. That compares with an estimated record C$100 billion for the fiscal year ending March 31, and would likely be the third highest after the C$90 billion total in fiscal 2008-2009.

"A large part of the issuance over the last couple of years was based on emergency stimulus," said Mark Chandler, head of Canadian fixed-income and currency strategy in Toronto at Royal Bank of Canada, the nation's biggest lender. "This year we should see a more comprehensive approach to debt management."

Prime Minister Stephen Harper yesterday opened a session of Parliament with a speech saying the government will end stimulus measures once a recovery takes hold. The economy will grow 2.9 percent this year, the Bank of Canada predicts, after output shrank 2.6 percent in 2009.

Chandler estimates the federal government will borrow C$75 billion in the coming fiscal year. That compares with estimates of C$85 billion from Eric Lascelles, chief economics and rates strategist in Toronto at Toronto-Dominion Bank, and $75 billion to C$80 billion from Warren Lovely, governments strategist at Canadian Imperial Bank of Commerce in Toronto.

Swap Spreads

Elsewhere in credit markets, the spread between Canadian two-year interest-rate swaps and similar-maturity U.S. contracts widened to the most since April 2008, indicating traders are the most bullish in that period on the chances for Canadian versus U.S. interest-rate increases. The difference between the nations' rates for converting fixed payments to floating climbed 8 basis points, or 0.08 percentage point, to 52 basis points.

The Bank of Canada yesterday sold C$3 billion of five-year notes at an average yield of 2.745 percent, according to a statement on the bank's Web site. The central bank's Jan. 13 auction of five-year bonds fetched an average yield of 2.822 percent, with a bid-to-cover ratio of 2.409.

Federal borrowing may decline this year in part because the government is winding up the Insured Mortgage Purchase Plan, the economists said. The government sold debt against the C$66 billion worth of mortgages purchased.

'Past The Peak'

The outstanding Canadian government debt should grow by about C$50 billion to a total of C$380 billion, Lovely estimates.

“There’s a reasonable expectation that we will see lighter borrowing requirements in 2010-2011,” Lovely said. “We are past the peak in Canadian issuance.”

The three-month Canadian Dealer Offered Rate, or CDOR -- a proxy for the cost of bank funding over that period -- rose yesterday to the highest in 10 months. The rate, similar to the London Interbank Offered Rate, or Libor, averaged about 4.2 percent since 1992, according to Bloomberg data.

The extra yield investors demand to own Canada company bonds instead of government debt ended yesterday at 123 basis points, compared with 121 basis points the day before, according to the Bank of America Merrill Lynch Canadian Corporate Index.

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